Forward Contract

Product Disclosure Statement ('PDS')

Purpose
The purpose of this document is to provide you with key information about various products offered by ICICI Bank. ICICI Bank is providing you with this PDS, so that you receive adequate information about Forward Contracts. It will help you understand their features, risks, benefits, an illustration of how the product works and assist you in making an informed decision about entering into Forward Contracts, and also facilitate comparison with other products (please refer to the PDS for key information on those products). Please read this PDS in full, before deciding to enter into a Forward Contract. Also, Forward Contracts with maturities beyond <13> months are typically referred to as (LTFX).

Components determining the value of a contract
Contract value and contracted rate would be determined by the prevailing exchange rate, interest rate, tenor and interest rate differential.

Termination
If you wish to terminate the Forward Contract before the maturity date, the Forward Contract will be terminated at the prevailing market rates. The termination value may either be positive (gain) or negative (loss). The termination value would be a function of the prevailing exchange rate and swap points for the residual period, which shall be based on interest rate, tenor, interest rate differential, discount factors etc. Currency markets are highly volatile and the prices of the underlying currencies can fluctuate rapidly and over wide ranges and may reflect unforeseen events or changes in conditions. Thus, fluctuations in the underlying currencies will affect the benefit or cost to you when you terminate a Forward Contract. The risks mentioned in this document are not exhaustive. There may be other risks that are relevant to you while entering into a Forward Contract.

Costs and fees
Any specific transaction of this nature will be concluded at an all-inclusive price and any separate costs, fees and charges would be levied, accordingly. The break-up of the all-inclusive price will be provided, as per the extant RBI guidelines. The statutory levies and charges will be recovered separately, as applicable from time to time.
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Principal Terms and Other Terms
Please refer to the website for 'Principal Terms' and 'Other Terms' applicable to the product.

General information
Please refer to the disclaimer at the end of this document.
Please note that all products are also subject to regulatory risks (not limited to change in regulation, product discontinuation by the regulator, etc.)

Forward Contract

Description and Features

A Forward Contract takes place between two parties, to exchange one currency against another at the contracted rate, on maturity.

Party A: ICICI Bank Ltd
Party B: Client

For example:
A Corporate wishing to hedge the exchange rate risk on the underlying exposure may enter into a Forward Contract, where it would be able to take delivery of one currency against another on the pre-agreed date, at the contracted rate.

Purpose

The purpose of a Forward Contract is to hedge the currency risk of the underlying exposure.

Illustration for a USD/INR LTFX (Export Side)

Parameters:

1. Currency pair: USD/INR
2. Notional: USD <1.0> million
3. Spot reference: <74.50>
4. Tenor: <18> months
5. Swap points: <4.50> (premium)
6. Contracted rate: <79>.00

Possible scenario(s) of settlement for the above illustration

Gross settlement:

a. On maturity: Party B would deliver USD <1>.0 million and shall take delivery of INR <79>.0 million.
b. Early delivery: Party B shall take delivery of the INR against the delivery of USD <1> million or part thereof, by paying back the prevailing swap points for the residual maturity, e.g. if the swap points to pay for the residual period trades at <1>.00 on the date of early delivery, the INR notional for delivery would be <78>.0 million.

Net Settlement/Termination/Cancellation of contract:
Party B may terminate the contract, during the tenor of contract, at the prevailing market rate. The prevailing market rate shall constitute of the spot rate and swap points for residual maturity of the contract.
Gain on such termination/cancellation shall be settled on maturity. Loss shall be settled upfront.

In the above example, if the spot rate on the date of termination/cancellation of the contract trades at <73.50> and swap points for the residual maturity of the contract trades at <2.50> (premium), the net rate for cancellation shall be <76>.00 (costs and fees extra). Gain on such termination/cancellation of contract shall be ~ INR <3>.0 million and the same shall be paid to the customer on the maturity date of the original contract.

Benefits:

- The underlying exposure of Party B, is hedged against the currency risk fluctuations during the tenor of the contract.

Risks

- In case of any INR depreciation, the contract holder has already locked into the USD/INR spot rate at the inception of trade. In the above example, if the USD/INR moves to 80, the contract holder has locked his USD/INR rate of <79>.00.

Various risks associated in the transaction:

The Counterparty acknowledges that before entering into Derivative Contracts, it understands the underlying risk of the above-mentioned transaction. The Counterparty acknowledges that derivative transactions are in general, exposed to various types of risks, including but not restricted to the following:

1. Credit Risk: Credit risk is the risk of loss, due to a counterparty's failure to perform on an obligation to the institution. Credit risk in derivative products comes in two forms:

a. Pre-settlement risk: Pre-settlement risk is the risk of loss, due to a counterparty defaulting on a contract during the life of a transaction. The level of exposure varies throughout the life of the contract and the extent of losses will only be known at the time of default

b. Settlement risk: Settlement risk is the risk of loss, due to the counterparty's failure to perform on its obligation after an institution has performed on its obligation under a contract on the settlement date. Settlement risk frequently arises in international transactions because of time zone differences. This risk is only present in transactions that do not involve delivery versus payment and generally exists for a very short time (less than 24 hours).

2. Market Risk: Market risk is the risk of loss, due to adverse changes in the market value (the price) of an instrument or portfolio of instruments. Such exposure occurs with respect to derivative instruments when changes occur in market factors such as underlying interest rates, exchange rates, equity prices, and commodity prices or in the volatility of these factors.

3. Liquidity risk: Liquidity risk is the risk of loss, due to failure of an institution to meet its funding requirements or to execute a transaction at a reasonable price. Institutions involved in derivative activities face two types of liquidity risks: Market Liquidity risk and Funding Liquidity risk.

a. Market Liquidity risk: Market Liquidity risk is the risk that an institution may not be able to exit or offset positions quickly, and in sufficient quantities, at a reasonable price. This inability may be due to inadequate market depth in certain products (e.g. exotic derivatives, long-dated options), market disruption, or inability of the bank to access the market (e.g. credit downgrading of the institution or of a major counterparty)

b. Funding Liquidity risk: Funding Liquidity risk is the potential inability of the institution to meet funding requirements, because of cash flow mismatches, at a reasonable cost. Such funding requirements may arise from cash flow mismatches in swap books, exercise of options, and the implementation of dynamic hedging strategies.

4. Operational risk: Operational risk is the risk of loss, occurring as a result of inadequate systems and control, deficiencies in information systems, human error, or management failure. Derivative activities can pose as a challenging operational risk issue because of the complexity of certain products and their continual evolution.

5. Legal risk: Legal risk is the risk of loss, arising from contracts which are not legally enforceable (e.g. the counterparty does not have the power or authority to enter into a particular type of derivative transaction) or not documented correctly.

6. Regulatory risk: Regulatory risk is the risk of loss, arising from the failure to comply with regulatory or legal requirements.

7. Reputation risk: Reputation risk is the risk of loss, arising from adverse public opinion and damage to reputation.

8. IBOR Discontinuation: If the Counterparty transacts in any derivatives linked to an Interbank Offer Rate (IBOR) such as LIBOR, or any synthetic rate (such as MIFOR) that use an IBOR in its calculation, please note that there is a risk that such IBOR may be discontinued, prior to the maturity of the derivatives contract. There are public consultations by different industry groups, including ISDA for derivatives contracts, to develop contractual fallbacks that will apply in the event of an IBOR discontinuation. A contractual fallback will define the events that will trigger the benchmark fallback and the methodology that will determine the fallback rate. ISDA has consulted on technical issues related to new benchmark fallbacks for derivatives contracts that reference certain IBORs. As and when the benchmark fallbacks are finalised, market participants are expected to incorporate them into the existing derivatives contracts, by way of bilateral amendment or multilateral protocol adherence, to enhance contractual robustness. Please note that application of the benchmark fallbacks may cause a change in value of the existing derivatives contracts. In addition, there is no assurance that the same trigger events and fallback methodologies will be incorporated into cash products (such as bonds, loans or other non-derivative products). Accordingly, you may run basis risks if you are using derivatives contracts to hedge your obligations or investments in cash products (or another financial instrument) that adopt different triggers and fallbacks. The potential mismatches may impact the hedge effectiveness, financial reporting and value of the existing derivatives contracts.

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ICICI Bank, its related companies, their directors and/or employees may have interests or positions in, and may effect transactions in the underlying product(s) mentioned in this document.

Transactions in respect of the products mentioned in this document can be executed only as per the regulatory guidelines of the geography of the proposed execution and other laws and guidelines applicable to such transactions. The Counter Party should note that the sensitivity analysis and scenario analysis of products would be contained in the Confirmation provided to the Counter Party, in respect of executed transactions.

For any further information in relation to the subject matter of this document, the Counter Party may contact its treasury Relationship Manager.